



Mayor's Office of
Contract Services

August 6, 2013

**Interim Report of Andrea Glick, City Chief Procurement Officer,
To the Procurement Policy Board, Pursuant to PPB Rule 3-12(f)
Innovative Procurement – Regarding the Use of Social Impact Investment
Funding**

Michael R. Bloomberg
Mayor

Andrea Glick
City Chief Procurement
Officer and Director of
Contract Services

253 Broadway, 9th
Floor
New York, NY 10007

212 788 0010 tel
212 788 0049 fax

aglick@cityhall.nyc.gov

Summary

The Human Resources Administration (HRA), pursuant to the procedures provided for in Section 3-12 of the Procurement Policy Board Rules (PPB Rules), Innovative Procurement Methods, requested and received City Chief Procurement Officer approval on July 20, 2012 to proceed with an innovative procurement to test the use of Social Impact Investment funding. The procurement was undertaken in accordance with §3-11 of the PPB Rules, Demonstration Projects for Innovative Products, Approaches, or Technologies. HRA, on behalf of the City of New York, has embarked on a demonstration project to pilot the use of Social Impact Investments as start up funding for social improvement programs.

Background

Social Impact Investing is a recently developed, innovative method for funding client-based human services. The concept builds off the ideas in impact investing, which combines the creation of both a potential financial return and social value, in exchange for the transfer of risk to the private sector. Although Social Impact Investments include both Social Impact Bond (SIB) and Pay for Success (PFS) projects, the model is most commonly referred to as a "SIB."

The SIB model utilizes private funding to fund certain social service initiatives, which are intended to have cost savings for government. In a SIB setting, government funds are utilized only if the human services-related initiatives meet pre-established outcomes, and actual government funds are saved due to that initiative meeting the outcomes. If the outcomes are met, the resultant cost savings are used to not only fund the initiatives in the long term, but to also to return the private investors' outlay of initial funding.

One innovative aspect of the procurement is the funding model, because the initial funding for the services would be secured by the vendor from private and institutional investors, not the City fund. Also, the private funds and initiatives would be managed by a vendor, and not the City.

In addition to the funding model being an innovative aspect of the procurement, HRA requested and received approval for the use of the innovative procurement rule because the SIB pilot on Rikers requires more than the three years allowed under PPB Rule §3-11 to be implemented and achieve savings. Due to the fact that the first SIB will take six years to realize savings, the special business rule for this pilot did not fit into the model of most demonstration projects as such the approval was given for six years rather than the typical term for a demonstration project of three years. The innovative financing approach required approval under PPB Rule §3-12.

This innovative demonstration project was necessary because certain client services programs may save the City money while providing necessary social interventions. The

goal of this funding model is to decrease the City's financial risk, provide short term savings by using private funding in lieu of tax dollars and long term savings resulting from successful interventions, and achieve positive social outcomes. Where success can be measured, and City savings can be realized, it is preferable to use a model that will limit the City's financial liability unless and until outcomes are achieved.

The innovative demonstration project was structured in two phases. Phase one of the demonstration project was the launch of the nation's first SIB, which is providing an evidence-based cognitive-behavioral therapy (CBT) intervention to adolescents at Rikers Island. Phase two of the demonstration project entailed issuing a Request for Expressions of Interest (RFEI) to see if there was any interest in the social services delivery community to test this new contracting method.

The SIB model is an innovative approach to solving social problems in an environment of constrained government spending. The City is faced with the challenge of addressing social problems and providing interventions with limited resources. Exacerbating the challenge is the difficulty of capturing government savings that result from successful preventative programs and other initiatives, and reinvesting them in a strategic way. SIBs offer new alternative means to fund complex and vital human services programs, expanding the resources available to the City. As such, the City must demonstrate and test their use before deciding whether the approach is viable and should be implemented on a larger scale.

Implementation

Phase I of the innovative demonstration project led to the successful launch of nation's first SIB. Before the City of New York's SIB, the United Kingdom was the only known governmental entity managing a program utilizing SIBs.

In the first SIB, the initial investors are Goldman Sachs, who is funding the project's delivery and operations through a \$9.6 million loan to MDRC, an education and social policy research organization the City selected to serve as the project intermediary, and Bloomberg Philanthropies, who is providing a \$7.2 million grant to MDRC to guarantee a portion of Goldman Sachs' investment. MDRC is responsible for managing the funding and coordinating program operations with all the partners. In the case of this particular SIB, Goldman Sachs approached the City with an interest in exploring the SIB model, and Bloomberg Philanthropies agreed to provide grant support because of their commitment to the Mayor's Young Men's Initiative, a \$127 million initiative aimed at reducing disparities between young black and Latino men and their peers. MDRC, through a limited pool RFP, bid out services and selected the providers in partnership with the City. The initial investment provides operating funds for the project. The project is intended to result in cost savings to the City of New York. A portion of these cost savings will be returned to MRDC to both repay the upfront investment and provide a potential return on investment. The innovative demonstration project aims to reduce re-admissions to Riker's Island by providing a CBT intervention to 16 – 18-year-old inmates.

The SIB project began on January 2nd, 2013, which means that all adolescents on Riker's Island are now receiving the CBT intervention, and the impact of the program is being carefully evaluated by the Vera Institute of Justice. Although it is too early to know if this project will reach its targeted reduction in recidivism and produce financial returns for the private investor, the innovative demonstration project achieved its goals of bringing new investment to the City and shifting government focus to preventative interventions and outcome-based contracts.

Phase II of the innovative demonstration project, the issuance of a RFEI for SIB proposals, led to thirteen responses. The competitive selection of these projects will be based on the potential of the proposed team to implement a successful client services model, and the probable success of the initiative. In the case of SIBs, the City must work with the provider to determine the feasibility of using the SIB model. Any new projects identified in response to the RFEI will be registered as demonstration projects under the innovative rule and will be considered separate demonstration projects under this innovative procurement. If MDRC identifies any additional projects, those projects will be registered as consortium contracts under MDRC's master agreement. Implementing additional phases will allow the City to expand its knowledge of the SIB model and increase the likelihood of funding successful programs.

Although it is also too early to know if the City will implement any of the proposed programs, our preliminary data reveals a promising method of procurement. The number of responses demonstrates a high level of interest, and we are currently working with the strongest proposals in accordance with standard guidelines of competition.

Given that City of New York has implemented the nation's first SIB and has received thirteen proposals for more SIB projects, HRA considers this innovative demonstration project highly successful.

Recommendation for Further Use

HRA's experience utilizing the above described procurement method was highly positive, and further testing of this model through other demonstrations will allow the City to better target social programs that will be a fit for and are likely to succeed using this model. Thus, the PPB should consider adopting a rules change to authorize this process as an acceptable alternative under appropriate circumstances.